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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION
I.D. 4043
RESOLUTION E-3897
November 19, 2004

R E S O L U T I O N

Resolution E-3897. Southern California Edison Company (SCE) submits revisions to Reliability Services Balancing Account Adjustment (RSBAA) rates as filed with FERC in Docket ER04-1176-000.

By SCE Advice Letter 1830-E filed on October 7, 2004.

SUMMARY

SCE filed Advice Letter (AL) 1830-E on October 7, 2004, for changes to its electric transmission reliability services (RS) revenue requirement in accordance with its filing in the Federal Energy Regulatory Commission's (FERC) Docket ER04-1176-000. This Resolution approves SCE's request with modifications.

The major elements of this resolution include the following:

1. The CPUC is obligated to allow recovery of these FERC rates.
2. The increased RS revenue requirement is needed to recover costs of two Reliability Must Run (RMR) plants newly designated by the California Independent System Operator (ISO), and increased costs of Alamos and Huntington Beach RMR units.
3. SCE's proposal to decrease the generation component of Residential Tiers 1 and 2 to comply with AB1X limitations is adopted.
4. SCE's proposal to recover the shortfall, resulting from AB1X limitations, in Residential tiers 3 and 4 is denied without prejudice. This issue will be addressed by the Commission in an appropriate proceeding.
5. SCE shall track the generation revenue under-collection, caused by AB1X limitations on tiers 1 and 2, in an account for recovery at a later date once the Commission has adopted a policy on how to recover the shortfall.

SCE Advice Letter 1830-E was not protested.

This resolution approves the advice letter with modifications.

BACKGROUND

Electric transmission Reliability Services (RS) revenue requirements are subject to FERC jurisdiction.

Upon electric restructuring and the establishment of the California Independent System Operator (ISO), transmission revenue requirements and rates became subject to FERC jurisdiction beginning in 1998. The utilities file their transmission rate cases at FERC. Similarly, the utilities file at FERC for recovery of transmission costs related to reliability services. Presently, the CPUC's role is to represent the interests of California consumers before the FERC. The CPUC does not have the authority to approve or disapprove transmission-related revenue requirements, although it can file as an intervener in the proceeding at FERC. Instead, under the filed rate doctrine, the CPUC is obligated to pass through the revenue requirements for recovery in retail rates that are filed with and become effective at the FERC.

While the CPUC is obligated to authorize the utilities to recover FERC-authorized total revenue requirements, the CPUC has to comply with state statutes in designing overall rates.

In authorizing recovery of FERC-authorized revenue requirements, the CPUC has to comply with state laws. One such law is AB1X, which requires that the rates for up to 130% of baseline usage by residential customers cannot be raised above the level of those rates in effect on February 1, 2001. Similarly, rates for specified income brackets (e.g., California Alternate Rates for Energy or CARE) cannot be raised above specified levels.

To reconcile its obligation under the filed rate doctrine and to comply with state laws, the CPUC has on occasion passed through the rate increase, which is filed with and becomes effective at the FERC, in one component but decreased another rate component to keep total rates the same in certain tiers for residential customers.

SCE's currently-effective Reliability Services rates are developed pursuant to the terms of a settlement filed in Docket ER03-142-000, approved by the FERC on February 12, 2004.

The Reliability Services settlement, approved in February 2004, specifies the percentages of cost responsibility for SCE's RS revenue requirement for SCE's retail customers and SCE's three existing transmission contract customers subject to paying RS rates. The RS settlement allows SCE to request changes in RS revenue requirements and RS rates, pursuant to a filing under the Federal Power Act Section 205. This filing by SCE is made pursuant to that settlement.

When utilities file for rate changes at FERC, FERC may respond in one of several ways depending on circumstances.

When a utility files at FERC for a rate change, the FERC may do any of the following:

1. Accept the request as filed for rate changes effective on the date requested by the utility. In this case, SCE requested a November 1, 2004 effective date.
2. Accept the request for rate changes effective at a later date after the FERC specified protest period ends.
3. Accept the request, subject to refund, pending hearings on any contested issues.
4. Reject the request.

On September 2, 2004, SCE filed a Reliability Services Rate Revision filing with the FERC in Docket ER04-1176-000, to be effective November 1, 2004.

In this filing, SCE seeks to increase its currently effective RS revenue requirement and resulting RS rates to reflect a revised forecast of RS costs for 2004.

In this Reliability Services Rate Revision Filing, SCE is submitting changes to the Reliability Services Balancing Account Adjustment (RSBAA) rates, to be effective November 1, 2004, in accordance with FERC's approval.

On November 1, 2004, FERC issued its "Order Accepting and Suspending Proposed Revision to Transmission Owner Tariff, and Establishing Hearing and Settlement Judge Procedures." In its Order, FERC stated, *The* (FERC)

Commission's preliminary analysis indicates that SoCal Edison's filing has not been shown to be just and reasonable and may be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. Accordingly, the Commission will accept the proposed revision to the TO Tariff and the associated rates for filing, suspend them for a nominal period, to become effective on November 1, 2004, subject to refund, and set them for hearing."

The Reliability Services costs that are the subject of this filing are incurred by the ISO, and then billed to a participating transmission owner, which in this case is SCE.

The California Independent System Operator (ISO) directly bills each Participating Transmission Owner (TO) for the Reliability Must Run (RMR) costs and local reliability out-of-market call costs it incurs pursuant to Section 5.2 of its FERC tariff.

The RS Rate Schedule, along with the RSBA mechanism, ensures that SCE neither over-collects nor under-collects RS costs billed by the ISO, which are necessary to maintain the reliability of the transmission grid.

On September 2, 2004, SCE filed revisions to its TO tariff to reflect an increase to its RS revenue requirement and rates to be effective November 1, 2004. Pursuant to its TO tariff, SCE must revise its RS rates for the various rate schedules. The change to the RSBA component of the transmission rate results in a change in the total Delivery Services charge through the TO Tariff Charge Adjustment (TOTCA) component.

NOTICE

Notice of SCE AL 1830-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

SCE Advice Letter 1830-E was not protested.

DISCUSSION

Energy Division has reviewed SCE AL 1830-E. There are two basic issues related to this advice letter:

1. Whether the requested increase in the Reliability Services revenue requirement is just and reasonable and should be passed through to ratepayers.
2. How should the amount of the revenue requirement not collected from residential Tiers 1 and 2 because of AB1X limitations be recovered by the utility?

Discussion of the relevant facts that lead to the approval of this advice letter with modifications is below.

SCE seeks an additional \$49 million revenue requirement due to a higher than expected RS bill from the ISO.

SCE's annual RS revenue requirement has increased from \$17.5 million to a projected \$66.4 million. The increase in reliability services costs to SCE is due to two reasons:

- First, SCE expects to be billed by the ISO approximately \$27 million for RMR services from two newly designated RMR units, Etiwanda Units 3 and 4, for the period July 1 through December 31, 2004.
- Second, SCE expects to incur \$22 million more in RMR costs for three units in SCE's service territory, Alamitos Unit 3 and Huntington Beach Units 1 and 2, than originally forecast.

In its filing with FERC, SCE indicated that the higher level of RS costs is not temporary in nature, but is likely to persist into 2005. SCE stated, *“SCE has been experiencing much higher costs than originally forecast at the Alamitos and Huntington Beach RMR generation units as a result of higher gas prices and higher use of the contract path by the RMR owners. In addition, SCE expects to begin receiving substantial bills from the ISO associated with the revised allocation of must-offer minimum load costs due to Amendment 60 ... Thus, all indications are that SCE’s Revenue Requirement in effect in 2005 will be significantly higher than the RS Revenue Requirement proposed in this filing.”*

SCE stated that its proposed RS revenue requirement of \$66.4 million is below the current RS revenue requirements of SDG&E (\$158.7 million, Docket ER04-1017) and PG&E (\$312.3 million, Docket ER04-340).

Filed rate doctrine provides for a pass through of these FERC rates.

Under the filed rate doctrine, the CPUC is generally obligated to pass through FERC rates to SCE’s customers. While the CPUC lacks authority to approve or not approve these rates, the CPUC is a party as an intervener in FERC proceedings to represent the interests of California consumers.

Accordingly, we conclude that we should authorize SCE to recover this revenue requirement through rate changes, to the extent that these rates became effective at FERC on November 1, 2004, and subject to refund to the same extent as at FERC.

Assembly Bill (AB) 1X limits the total energy charges for residential usage in Tiers 1 and 2 up to 130% of baseline.

Pursuant to Assembly Bill (AB) 1X, total energy charges for residential usage up to 130% of the authorized baseline quantity are restricted to levels in effect on February 1, 2001. Residential usage up to 130% of baseline is billed to customers in Tiers 1 and 2. Because SCE already has rates in effect at their mandated limit, any increase in the Transmission component of Tiers 1 or 2 energy charges, without offsetting other charges in Tiers 1 and 2, would violate the relevant provisions of AB1X.

SCE proposes to pass through this increased revenue requirement by increasing the Transmission component in residential Tiers 1 and 2 while

decreasing the Generation component in Tiers 1 and 2 to comply with AB1X. SCE proposes to collect the Generation revenue shortfall thus created by increasing the Generation component in residential Tiers 3 and 4.

SCE proposes a similar offset in Generation rates for Tiers 1 and 2 under its Schedule D-CARE (California Alternate Rates for Energy). However, because the CARE schedule currently has no established higher tier rates, the resulting under-collection in generation revenue would be recorded in the CARE balancing account.

The CPUC should allow the increased RS revenue requirement to go into effect consistent with the effectiveness of SCE's FERC filing because of the filed rate doctrine. However, portions of the ratemaking methodology proposed by SCE have not been completely reviewed or addressed by the Commission.

SCE has shown that its RS costs, which are billed by the ISO and necessary to maintain the reliability of the transmission grid in SCE's service territory, have increased. We approve the requested RS rates required to recover these costs to the extent they become effective at FERC, subject to refund to the extent they are subject to refund at the FERC.

FERC's preliminary analysis, in its Order dated November 1, 2004, indicates that SCE's filing has not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. Accordingly, FERC accepted SCE's proposed revisions to the Transmission Owner's Tariff and associated rates for filing to become effective November 1, 2004, subject to refund, and set them for hearing.

SCE's proposal to reduce the Generation rate component for Tiers 1 and 2, to comply with AB1X limitations, is adopted.

Energy Division staff agrees with SCE that the Generation rate component of Tiers 1 and 2 should be reduced if the Transmission rate component of Tiers 1 and 2 are increased in order to meet the requirements of AB1X. Staff finds this portion of SCE's proposed ratemaking to be just and reasonable.

SCE's proposal to increase residential Tiers 3 and 4 rates, to recover the resulting generation revenue shortfall, is denied at this time.

The ratemaking methodology proposed by SCE to increase the Generation component for Tiers 3 and 4 to offset the resulting generation revenue shortfall has not been completely reviewed or addressed by the Commission in any proceeding. Staff finds that increasing rates for residential Tiers 3 and 4, to make up for the shortfall for Tiers 1 and 2 residential customers, is a policy issue that should be more appropriately addressed in another Commission proceeding. We deny without prejudice SCE's proposal to increase the upper tiers of residential generation rates, pending a future Commission finding on the appropriate allocation of the shortfall among customers.

Just as SCE proposes to account for its generation revenue under-recovery for its CARE customers in a balancing account, we require that SCE place its revenue under-collections, caused by AB1X limitations, in an account for later collection. The generation revenue under-collections put in the account are to be recovered at a later date when the Commission has decided this issue in an appropriate proceeding.

SCE shall file an Advice Letter within 14 days specifying the account, e.g., Electric Revenue Adjustment Account (ERAA), in which it is tracking these revenue under-collections, caused by decreasing the Generation rate component in Tiers 1 and 2 and not increasing any other Generation rates. If SCE chooses to track these under-collections in an existing account, it shall use a separate sub-account.

SCE shall submit a proposal to recover the revenues authorized by FERC that it did not collect from November 1, 2004 until the date the rates we authorize in this resolution take effect.

By letter from the CPUC Director of Energy Division to SCE on October 29, 2004, SCE was informed that, *"Implementation of the rates filed in Advice Letter 1830-E would result in a rate increase. Pursuant to Public Utilities Code Section 454, this rate change cannot be put into effect without further action by the Public Utilities Commission (Commission). SCE should not make the rates filed in the advice letter effective on November 1, 2004, and not until it receives Commission approval."*

The FERC-authorized revenue requirement addressed by AL 1830-E may not be just or reasonable. However, to ensure that SCE recovers its FERC-authorized revenue requirements for these FERC jurisdictional activities pursuant to the filed rate doctrine, SCE shall submit an advice letter within 30 days of today's date to propose a method to recover the revenues it was not able to collect beginning November 1, 2004, the date on which its FERC rate filing became effective.

This advice letter shall show the total amount of revenue in dollars that SCE was not able to collect from customers from November 1, 2004 until the date the rates we authorize in this resolution take effect.

COMMENTS

Public Utilities Code section 311(g) (1) generally requires resolutions to be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (3) provides that this 30-day period may be reduced or waived pursuant to Commission adopted rule.

The 30-day comment period for this Resolution has been reduced in accordance with the provisions of Rule 77.7(f) (9). Rule 77.7(f) (9) provides that the Commission may waive or reduce the comment period for a Resolution when the Commission determines that public necessity requires reduction or waiver of the 30-day period for public review and comment. For purposes of Rule 77.7(f) (9), "public necessity" refers to circumstances in which the public interest in the Commission's adopting a Resolution before expiration of the 30-day review and comment period clearly outweighs the public interest in having the full 30-day period for review and comment. In this case, SCE filed with FERC revised revenue adjustment electric transmission rates to be effective November 1, 2004. Furthermore, there have been no protests filed with FERC nor have any protests to Advice Letter 1830-E been filed with this Commission. Accordingly, the public interest in having the CPUC rate changes go into effect as soon as possible so as to not further delay the period of revenue under-recovery coupled with expected RS cost increases in 2005 outweighs the interest in having the full 30-day comment period.

Thus, pursuant to Rule 77.7(f) (9), we provide for a shortened comment period.

Comments on draft Resolution E-3897 were submitted by SCE on November XX, 2004.

The following is a more detailed summary of the major comments submitted by SCE.

FINDINGS

1. SCE filed a reliability services filing with the FERC on September 2, 2004 in Docket ER04-1176 to increase RS rates effective November 1, 2004.
2. SCE's annual RS revenue requirement has increased from \$17.5 million to a projected \$66.4 million.
3. The CPUC is obligated to allow recovery of these FERC rates, due to the filed rate doctrine.
4. Consistent with AB1X, SCE made a change to the Generation component of Tiers 1 and 2 rates, so that the total residential rates for usage up to 130% of baseline remain unchanged.
5. SCE Advice Letter 1830-E is in accordance with SCE's FERC filing for revisions to its electric transmission RS rates.
6. FERC finds these revenue requirements may not be just or reasonable, but permitted them to go into effect on November 1, 2004, subject to refund, and set them for hearing.
7. The rates authorized by this Resolution shall be subject to refund to the same extent they are at the FERC.
8. SCE's request to track its generation revenue under-recovery for its CARE customers in a balancing account is approved.
9. SCE's proposal to increase the upper tiers of residential generation rates is denied without prejudice pending a future Commission finding on the appropriate allocation of the shortfall caused by AB1X limitations.
10. No later than 14 days from today, SCE shall file an advice letter designating the account in which it is tracking the shortfall in generation revenues for Tiers 1 and 2 caused by AB1X limitations.
11. The disposition of the amounts tracked in this account, and the determination of how the amounts are to be allocated to customers, shall be determined by the Commission in an appropriate proceeding.
12. By letter from the CPUC Director of Energy Division dated October 29, 2004, SCE was informed that the proposed revised transmission rates should not be

effective on November 1, 2004, and not until it receives Commission approval.

13. Within 30 days of today's date, SCE shall file an advice letter proposing a method to recover the FERC-authorized revenue not collected from November 1, 2004 until the date the rates we authorize in this resolution take effect.
14. SCE Advice Letter 1830-E was not protested.

THEREFORE IT IS ORDERED THAT:

1. The request of SCE, in its Advice Letter 1830-E, to revise electric transmission reliability services rates, in accordance with FERC approval of these rates in Docket ER04-1176-000, is approved with modifications.
2. The effective date for implementation of the revised electric transmission rates authorized herein is November 19, 2004.
3. These rates shall be subject to refund to the same extent they are at the FERC.
4. No later than 5 days from today, SCE shall file a supplement to Advice Letter 1830-E showing the rate changes authorized by this Resolution. The supplement shall reflect no changes in the Generation component for the upper tiers of currently existing residential rates, in compliance with the requirements of this Resolution.
5. No later than 14 days from today, SCE shall file an advice letter designating an account, e.g., ERAA, in which it is tracking the shortfall in residential generation revenues for Tiers 1 and 2, caused by increasing the transmission component of rates for these tiers. If SCE chooses to track these amounts in an existing account, it shall use a separate sub-account. The disposition of the amounts tracked in this account, and the determination of how the amounts are to be allocated to customers, shall be determined by the Commission in an appropriate proceeding. The advice letter shall be effective on today's date, subject to Energy Division's determination that it is in compliance with this Order.

6. No later than 30 days from today, SCE shall file an advice letter to propose a method to recover the FERC-authorized revenue that SCE has not collected from November 1, 2004 until the date the rates we authorize take effect. The advice letter shall show the total FERC-authorized revenue in dollars that SCE did not collect from November 1, 2004 until the date the rates we authorize take effect. The advice letter shall become effective on the date filed subject to Energy Division's determining it is in compliance with this Order.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on November 19, 2004; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director